

# State and Local Government Fiscal Position in 1982

**T**HE State and local government surplus on a national income and product accounting (NIPA) basis was \$81.9 billion in 1982, up slightly from the 1981 surplus. The social insurance funds surplus continued to increase, but its \$4.4 billion increase was almost offset by a swing to an other funds deficit.

Receipts increased about 5 percent, and expenditures slightly more; both showed a considerably slower rate of growth than in the previous year. The deceleration in receipts was caused by the weak economy and by Federal policy decisions reducing grants-in-aid, and occurred despite widespread impositions of higher tax rates by many governments. The deceleration in expenditures occurred in the context of budget shortfalls and took the form of a continued decline in purchases of structures and restraints on employment.

## Receipts

State and local government receipts increased about 5 percent in 1982,

down from an 8-percent increase in 1981 (table 1). All five major categories of receipts contributed to the deceleration. Three categories—personal tax and nontax receipts, indirect business tax and nontax accruals, and contributions for social insurance—increased less, and corporate profits tax accruals and grants-in-aid declined more.

Personal tax and nontax receipts increased 9½ percent in 1982, down from 12½ percent in 1981. Income taxes accounted for all of the deceleration. They increased only 7½ percent, after several years of increases averaging more than 10 percent. Legislative actions added more than a percentage point to income tax growth, reversing the post-1976 pattern of holding down growth. For most of this period, indexing held down income tax growth. Indexing continued to have this effect in 1982, but a \$1 billion addition to these taxes by current legislative actions more than offset it. Other types of personal taxes and nontaxes recorded about the same growth as in 1981.

Corporate profits tax accruals declined for the second consecutive year, but the 1982 decline was much sharper—23 percent compared with 4 percent. Although most of the decline stemmed from adverse economic conditions, changes in the Federal tax treatment of depreciation contributed indirectly because many States usually follow Federal treatment. The contribution was probably small, however, because more than one-half of the States imposing such taxes either “decoupled” from the Federal treatment or raised tax rates in an attempt to make up the tax losses that otherwise would have occurred.

Indirect business tax and nontax accruals increased less in 1982 than in 1981. At 8½ percent, the increase was more than the 6½–7 percent recorded in 1978 and 1979, when Proposition 13 and similar measures held down property tax growth. In 1982, sales tax accruals were a major drag on indirect business tax growth; they increased about 5½ percent compared with a 9-percent increase in 1981. In the absence of legislative actions, the

Table 1.—State and Local Government Receipts, NIPA Basis

	Calendar years										
	Billions of dollars						Percent change				
	1977	1978	1979	1980	1981	1982	1978	1979	1980	1981	1982
Receipts.....	291.7	327.6	362.0	385.3	414.5	433.3	10.0	7.4	9.8	8.0	4.9
General own-source receipts.....	288.1	323.7	344.0	367.3	396.5	416.5	8.4	6.1	9.5	10.5	7.2
Personal tax and nontax receipts.....	66.3	68.8	70.4	78.8	86.6	97.1	12.2	10.6	11.9	12.5	9.6
Income taxes.....	30.8	35.8	38.6	42.8	48.3	51.8	14.3	9.8	11.9	12.9	7.4
Nontaxes.....	18.9	21.4	24.6	28.1	32.0	36.4	13.3	14.7	14.4	14.0	13.8
Other.....	6.7	7.0	7.4	7.9	8.3	8.8	5.2	5.0	7.7	6.0	5.5
Corporate profits tax accruals.....	11.1	11.9	13.4	14.4	13.9	10.7	7.4	12.7	7.3	-8.7	-22.7
Indirect business tax and nontax accruals.....	140.7	160.0	160.2	174.1	192.8	208.8	8.5	6.8	8.7	10.7	8.3
Sales taxes.....	64.0	71.0	71.9	82.8	90.4	95.4	10.3	8.6	7.2	9.1	6.5
Property taxes.....	63.2	63.7	64.4	68.4	75.1	80.6	.9	1.0	6.2	8.8	11.2
Other.....	13.5	15.3	15.5	22.9	27.2	29.9	13.3	21.2	23.6	18.9	9.7
Contributions for social insurance.....	22.1	24.7	27.4	29.9	33.8	37.2	11.8	11.1	9.1	12.0	10.1
Federal grants-in-aid.....	57.5	77.8	80.5	88.7	87.7	83.6	14.4	4.2	10.1	-1.1	-4.7
Admitted: Receipts excluding selected law changes:											
Total.....	297.2	329.6	360.0	394.8	424.9	442.7	11.0	9.1	9.7	7.8	4.9
General own-source receipts.....	297.6	328.0	351.5	376.2	406.4	422.0	9.8	10.4	9.8	9.9	6.1

increase would have been about 3 percent. This deceleration was primarily caused by the effect of slower retail sales growth on general sales taxes, for which there was no countering effect in motor fuel, tobacco, and liquor taxes, as demand for these goods remained weak. Unlike the 1981 legislative actions, which were centered on motor fuel tax increases, the 1982 actions involved sales taxes of all types, including both State and local general sales taxes. Wisconsin, Vermont, and Florida raised overall general sales tax rates; Nebraska imposed a temporary rate increase. Washington State, which exempted grocery food sales from the sales tax base in 1978, brought them back in 1982. These changes added about \$1.5 billion to sales tax collections during 1982. Legislative actions increased motor fuel taxes about \$0.5 billion for the second consecutive year. In the absence of these actions, motor fuel taxes would have been virtually unchanged from 1981.

The property tax accrual part of indirect business taxes was the one general own-source receipt that showed notable acceleration in 1982. For most of the 1970's, these taxes, which are largely local, recorded annual increases of 5-7 percent annually, except for 1978 and 1979, when Proposition 13 and related measures held growth to 1 percent. In 1981, the increase accelerated to almost 10 percent, and would have been even

larger had it not been for the imposition of Massachusetts' Proposition 2½, which lowered property taxes about \$250 million. It is likely that the 1982 increase exceeded 11 percent, an exceptionally large increase. After a decade of reductions in average effective rates, in which inflation and real growth in values of taxable property were sufficient to generate needed increases in property tax collections, it appears that many local decision-makers allowed effective rates to move up. Such action may be the necessary response to the combination of the current Federal administration's intent to devolve fiscal responsibility to lower levels of government and the widespread financial troubles in many State governments, which have greatly reduced their ability to finance local government outlays from State resources.

Grants-in-aid declined, even more than in 1981—4½ percent compared with 1 percent. In 1982, grants under the Comprehensive Employment and Training Act (CETA) declined \$1.6 billion, as employment financed by the act was terminated. Other major declines occurred in education grants (\$0.6 billion); and in several construction-related programs (about \$1 billion). Total public assistance grants were up slightly: Medical vendor payments (in part financed by these grants) increased 7 percent, and grants for other assistance programs, including Aid to Families with Dependent Children (AFDC), declined.

Contributions for social insurance increased 10 percent in 1982, compared with 18 percent in 1981. This deceleration was due to a "negative contribution" of about \$0.4 billion in 1980 in the California temporary disability insurance program. Excluding this transaction, increases in contributions would have been about 11 percent in both 1980 and 1981, only slightly more than the 1982 increase.

### Expenditures

State and local government expenditures increased 5½ percent in 1982—the smallest increase since World War II. The deceleration from 7½ percent in 1981 was concentrated in the purchase of structures, which declined for the second consecutive year, and in transfer payments to persons (table 2).

Purchases of goods and services increased 6 percent in current dollars, but in constant dollars were down about 1 percent. Compensation of employees increased 7½ percent, down from 9 percent in 1981. Employment declined about 1 percent in 1982, and average compensation was up about 8½ percent.

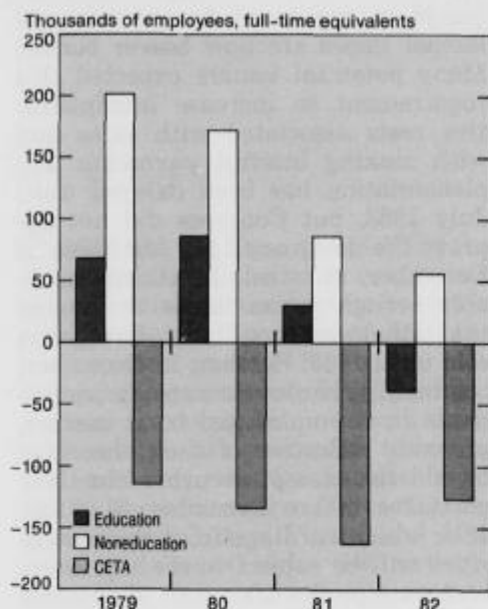
Public service employment under CETA, which funded more than 500,000 State and local government positions in 1978, came to an end in late 1981. In 1979 and 1980, permanent employment other than education increased rapidly enough to match the decline in CETA employment (chart 6). It seems likely that

Table 2.—State and Local Government Expenditures, NIPA Basis

	Calendar years										
	Billions of dollars						Percent change				
	1977	1978	1979	1980	1981	1982	1978	1979	1980	1981	1982
Expenditures .....	249.1	297.3	321.5	357.8	385.9	406.4	19.3	8.1	11.3	7.6	6.3
Purchases of goods and services .....	260.4	278.2	306.8	341.2	368.8	389.6	11.2	9.9	11.5	7.9	6.8
Compensation of employees .....	144.8	167.5	171.8	189.3	207.4	222.9	9.4	9.0	10.6	9.2	7.5
Structures .....	31.8	37.5	48.5	45.4	42.9	40.8	28.9	7.4	22.7	-5.5	-4.8
Medical vendor payments .....	15.4	16.4	18.7	21.8	25.2	26.8	7.4	12.8	16.7	15.4	6.7
Other .....	69.9	66.7	75.2	64.8	62.5	59.2	11.9	12.8	11.7	10.1	7.3
Transfer payments to persons .....	29.7	32.8	35.0	36.6	40.8	45.1	10.3	6.3	18.1	8.6	4.9
Benefits from social insurance funds .....	12.5	14.1	15.8	17.8	20.2	22.2	13.5	12.6	12.4	12.2	10.7
Direct relief .....	12.4	13.6	14.1	16.0	17.8	18.9	1.3	8.8	18.7	6.2	-7.0
Other .....	3.8	5.0	5.1	5.8	6.8	5.9	32.6	2.0	18.9	1.0	1.2
Net interest paid .....	-4.0	-6.2	-11.8	-14.8	-16.9	-18.5					
Interest paid .....	13.7	14.9	17.2	20.3	23.7	25.9	8.3	15.7	17.5	17.0	10.2
Less: Interest received by government .....	17.7	21.1	29.0	35.0	40.6	44.5	19.3	37.8	20.5	15.9	16.9
Less: Dividends received .....	1.3	1.7	1.9	2.1	2.4	3.3	33.0	14.5	13.2	20.5	26.1
Subsidies less current surplus of government enterprises .....	-6.1	-5.7	-6.9	-6.2	-6.3	-4.8					
Subsidies .....	2	2	3	4	4	5	12.3	30.8	5.3	13.6	12.9
Less: current surplus of government enterprises .....	6.3	6.8	8.2	6.5	6.9	7.2	11.9	4.0	5.2	6.1	5.3
Less: Wage accounts less disbursements .....	0	2	-1	0	0	0					

# State and Local Government Employment: Change From Preceding Year

CHART 6



U.S. Department of Commerce, Bureau of Economic Analysis

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better qualified CETA employees—those more easily absorbed into the permanent work force—were “skimmed” off in 1979 and early 1980, as local government managers anticipated continued declines in CETA funds. By 1981, this process was largely complete. Managers either would not or could not, because of deteriorating fiscal positions in many governments, continue to move former CETA employees into the permanent work force. In 1982, as fiscal positions worsened further, State and local new hiring virtually ceased.

The decline in the purchases of structures—slightly over \$2 billion—was concentrated in education construction (\$1.5 billion) and in sewer and utility construction (\$1.3 billion). Declining school population was a factor in the decline of education construction, and uncertainty about the future of Clean Water Act grants was a factor in the decline of sewer and water construction. Purchases of all other types of structures increased slightly. Real structures purchases declined \$1 billion in 1982, following a \$2 billion decline in 1981. Structures prices overall increased only about 1 percent in 1982, reflecting the weak market for construction. Real high-

way construction, about one-third of total State-local structures purchases, increased for only the second time since 1968; prices reflected in bids for highway projects fell about 5 percent in 1982 following a 1-percent decline in 1981. Federal investigations into improper bidding practices, which led to convictions in several States in 1981 and 1982, augmented the effect on prices of the weak market.

Other purchases of goods and services from business increased about 7 percent, following increases that averaged about 12 percent for the 4 previous years. This deceleration largely reflects slower price increases for many categories of goods and services purchases.

Transfers to persons increased 5 percent, compared with 8½ percent in 1981. Direct relief transfers declined slightly, after a 6-percent increase in 1981. A major factor in this decline was the tightening of eligibility requirements for AFDC required by Federal legislation. Limitations on State-controlled cost-of-living adjustments also contributed. Social insurance transfers decelerated only slightly, from 13 to 10½ percent, and other transfers changed very little for the second consecutive year. In the latter group, declines in funds flowing to nonprofit institutions for job training under CETA offset other increases; chief among them was \$0.3 billion representing “dividends” paid by Alaska to residents from oil revenues.

Interest paid in 1982 increased somewhat more rapidly than interest received. Rates for municipal borrowing rose to all-time highs at the beginning of 1982, and remained near those highs through mid-year. Thereafter, rates declined sharply, and long-term municipal borrowing was stepped up, reaching about \$75 billion by the end of 1982. Interest earnings increased almost as rapidly as interest outlays, so net interest paid continued to be a substantial offset to other expenditures.

## Fiscal position

The State and local government sector, excluding the operations of social insurance funds, registered a deficit of about \$4½ billion in 1982,

down from near balance in 1981. This deficit was the first sizable one in the

(Billions of dollars)

	1978	1979	1980	1981	1982
NIPA surplus or deficit (—)					
Total.....	30.3	30.4	28.2	31.7	31.9
Social insurance funds.....	20.3	23.8	27.3	31.8	36.3
Other funds.....	10.0	6.6	.9	—1	—4.4

sector since 1975.<sup>1</sup> Its major cause was the poor 1982 performance of major general own-source revenue sources other than property taxes. As it became evident that even modestly optimistic estimates of economic growth during 1982 were too strong, governments began to reduce expenditures and increase taxes. The States of Ohio, Minnesota, and Washington, where weakness in the economy had slowed receipts growth and depleted reserves even earlier, had enacted sizable tax increases in 1981 and found it necessary to increase taxes again in 1982. Michigan, Wisconsin, Oregon, West Virginia, and Vermont imposed higher broad-based taxes in 1982. Florida and Nevada also increased broad-based taxes, although in these cases the purpose was at least partly to fund local property tax reductions rather than to cover immediate budget shortfalls. A number of other States, although able to avoid major changes in broad-based taxes, increased alcohol, tobacco, and other excise taxes. Revenue increases related to mineral wealth (chiefly severance taxes and royalties) slowed or stopped in 1982, forcing budget changes in Texas, Louisiana, and New Mexico. On the expenditures side, the virtual cessation of new hirings, noted above, and a decline in education employment, indicates the extent to which expenditures growth was limited. Minnesota employees took a

1. Although since 1975 there have been surpluses, earlier there were usually deficits. Because capital spending by government is combined with current spending in the summary NIPA presentations and because much of the capital spending by States and localities is funded by long-term borrowing, the “normal” fiscal position of the other funds measure has been a deficit. This and other characteristics of the surplus and deficit in the NIPA framework are discussed more fully in “State and Local Government Fiscal Position in 1978,” in the December 1978 issue of the SURVEY OF CURRENT BUSINESS.

salary reduction, a four-day work week was imposed on Idaho employees, and wage freezes and layoffs occurred in other jurisdictions.

Reductions in Federal grants-in-aid also contributed to the shift into deficit, as did an increase in debt service. (Of the repayment of principal and payment of interest that make up debt service, only the latter is included in the NIPA measure of government expenditures.) The increase in debt service appears to reflect increased reliance on long-term borrowing for capital purposes. Although some of the increased reliance on borrowing appears to be a reaction to reductions in Federal grants, the size of the increase in 1982—almost 50 percent—clearly implies an acceptance of increased debt service well beyond what is required by the grant reduction incurred so far.

### Outlook

Receipts growth in 1983, although not strong, will be significantly more than the 5 percent recorded for 1982. The 7-percent increase that seems probable assumes a decline in grants-in-aid of only 2 percent, a substantial increase in corporate profits tax accruals, and an acceleration in broad-based taxes provided by a modest economic recovery. Part of this acceleration will reflect the full-year effect in 1983 of legislative actions taken during 1982. It also allows for changes in Missouri, Indiana, New Jersey, Mississippi, and Minnesota that came into place in January 1983, and for a large California tax package that will be required to avoid a fiscal year 1983 deficit, currently estimated at \$1.6 billion. The 7-percent increase further assumes that certain tax increases temporarily put into place during 1982, and intended to expire during 1983, will be extended (at least through December 1983) and that

property tax accruals will continue to increase about 11 percent. The slower inflation in taxable property values (especially for residential property) and the reduced additions to real property of 1981 and 1982 will work through the assessment process in 1983 and 1984. Slowed increases in assessments will dampen further increases in property taxes if there is not further acceleration in average rate increases. A small boost to 1983 receipts will come in States following the new Federal income tax withholding on interest and dividend earnings.

Expenditures increases will also be larger than the 1982 increase, but will remain well under 10 percent. The downward thrust on employment due to the ending of CETA public service jobs will be absent in 1983, but a downdrift in education employment, which appeared in mid-1982, will probably continue through 1983. Thus, overall employment levels for 1983 will be below those for 1982. Overall compensation will increase about 7 percent. Construction activity is likely to revive somewhat in 1983, despite lower Federal support in general. Very strong long-term borrowing in 1982 and the additional Federal Highway Trust Fund money available after April 1983, which are detailed in the following paragraphs, will contribute to that revival by providing a record amount of construction capital. Medical vendor payments are likely to continue at the relatively slow pace of 1982, in line with the imposition of stricter administrative controls. Other purchases from business will probably match, or slightly exceed, increases in prices for these goods and services. Transfer payments and interest outlays are likely to increase somewhat more rapidly than in 1982, and interest earnings are likely to increase somewhat more slowly.

In 1982, long-term borrowing for public capital increased about \$13 billion. Borrowing was strong, especially in the latter half of 1982, because the

lower rates available after mid-year were regarded as a window of opportunity for borrowers and because Federal legislation required, as of January 1983, that municipal debt be issued in registered form (most municipal issues are now bearer bonds). Many potential issuers expected this requirement to increase administrative costs associated with sales and with making interest payments. Implementation has been delayed until July 1983, but Congress did not approve the delay until the last week of December, and the uncertainty probably brought some issues to market that otherwise would not have been sold until 1983. Further, in December, commercial banks were strong participants in the municipal bond market, probably reflective of their incentive to add tax-exempt securities to their portfolios before December 31, 1982, after which earnings from these securities will be subject to the minimum corporate profits tax.

The 5-cent increase in the Federal gasoline tax (effective April 1, 1983) will significantly increase the revenues of the Federal Highway Trust Fund and provide substantial new funds for highway and transit construction. It is noteworthy that this was the first time Federal Highway Trust Fund receipts were earmarked for transit construction. A part of these Federal funds (about \$1 billion annually) will be available for repair and maintenance work, and should add to outlays of this type after mid-1983. Funds for construction will probably not generate sizable spending increases until near yearend.

The 1983 surplus on an NIPA basis will probably be about \$34 billion, consisting of a social insurance fund surplus of \$41 billion and an all other funds deficit of about \$7 billion. If the assumed recovery is delayed or aborted, or if property taxes are unable to sustain a second consecutive year of 11-percent growth, the other funds deficit will probably reach \$10 billion.